

Quarterly Economic Review

A Comparison of Selected National, Regional, and Local Economic Indicators
Loudoun County Department of Economic Development



A New Publication from the Department of Economic Development

The Department of Economic Development is pleased to announce the release of a new publication entitled the Quarterly Economic Review. This new product offers on a quarterly basis a summary of selected economic trends occurring in the U.S., the Washington Metropolitan Area, and Loudoun County. This document does not attempt to illustrate all trends in the economy. Instead, variables were selected that were believed to be important when studying national, regional, and local trends.

The *Quarterly Economic Review* offers a reader four sections. The first section, a narrative, gives an economic perspective through quotes, thoughts and ideas from economists and other national and regional authorities. In that section, we hope to capture general economic conditions and convey them to the reader. Those quotes and ideas will be specific to first the U.S. economy, then the region, and finally the local economy. The second section graphically highlights national economic trends by displaying data for variables including total U.S. output, price levels, retail sales, the average unemployment duration, the consumer sentiment index, and interest rates. Some of those variables were selected because we believe they are good barometers of current economic conditions. Others were chosen because of their modest predictive powers. Specifically, analyzing trends in those variables may allow an estimate to be made as to where the national economy is headed in the immediate future. The third section will display variables for which data is available at a national, regional, and local level. The variables displayed there include the unemployment rate, total civilian employment, building permits, leading indicators, and nonresidential vacancy rates. These variables were selected based on their significance to the local economy and the availability of data. Again, they are good indicators of the general health of the local and regional economy and their trends typically provide some insight as to the immediate future direction of those economies. The final section will display selected government finance data including local shares of total federal and defense spending, changes in the Commonwealth's General Fund, and changes in some of the larger components of that fund. That section also contains a summary of all indicators contained within the report.

Given unlimited space and data availability, there are many indicators that could have been included in this publication. Absent from the list of indicators is productivity, manufacturing activity, incomes, home sales and other employment information such as average workweek to name several. The list we selected includes variables most important in analyzing and understanding the Loudoun County economy. We hope that significant changes in variables not directly tracked by this report will be captured in the discussion in the first section. Other published indicators can be found on *Economic Indicators*, a monthly publication that tracks Loudoun specific variables, which can be found at <http://www.loudoun.gov/business/indicators.htm>.

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Navigating Through a "Soft Patch"

Despite sluggish world growth, a stock market that registered a third consecutive year of declines, and the threat of war, the American economy continued to expand in 2002. Official figures for 2002 are not yet available, however recent estimates suggest that U.S. Gross Domestic Product, the broadest measure of economic activity, grew by 2.4 percent on 2002, well above the 0.6 percent expected at the beginning of the year.

In October of 2002, it appeared that the U.S. recovery had stalled. Increased unemployment claims coupled with a decline in consumer confidence led many analysts to again consider the possibility of a "double dip" recession. Since that time, data have provided reasons for optimism. Business spending may be increasing, although modestly. Productivity has increased significantly. The housing market remains strong. *The Economist* captured this sentiment best when it stated "Stephen Roach of Morgan Stanley, perhaps Wall Street's most famous pessimist, acknowledged ruefully this week that 'the second double dip scare of 2002 now seems to be winding down'. Less obvious, however, is how strong the recovery will be."

The Federal Reserve's Alan Greenspan stated on Thursday, December 20, 2002 that the economy was still going through a soft patch. He further commented that it is not yet clear whether the aggressive interest rate reductions the Federal Open Market Committee had done in order to stimulate the U.S. economy would be sufficient to produce sustained economic growth. Regarding the state of the U.S. Economy, Chairman Greenspan said that the economic recovery had met some resistance in the summer of 2002. He did however indicate that the limited evidence since the November easing has supported his view that the U.S. economy has been working its way through that soft patch.

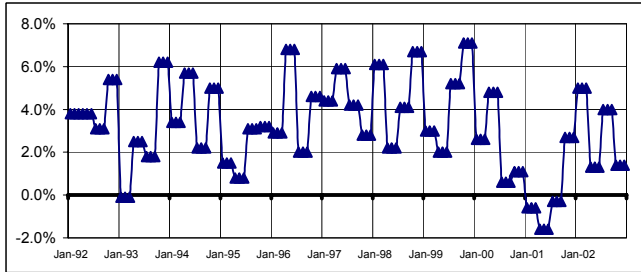
The State economy is showing signs of recovering, according to Christine Chmura of Chmura Economics and Analytics. The length of the manufacturing workweek is rising, retail sales have turned upward, and building permits continue to grow. However, Virginia is not immune for the soft spot that the Federal Reserve Board has noted is occurring in the nation. Employment growth in the State is sluggish and initial unemployment claims have started to inch upward again. Chmura forecasts employment growth in the state to be 1.2% in 2003.

At the regional level, Steve Fuller of George Mason University's Center for Regional Analysis argued that the Washington Metro Area did not have a recession during 2000-2002. One indicator supporting this argument is that unemployment in the region has remained low and is currently the lowest among all large metropolitan areas. Retail sales growth in the region, a good measure of economic health, has outperformed the U.S in general. Among the immediate challenges faced by the region was a high commercial vacancy rate, however, it was indicated that the commercial vacancy rate in Washington had recently stabilized and would likely return to an equilibrium rate in the single digits within two to three years. Overall, Dr. Fuller expects growth rates in gross regional product, a broad regional economic indicator, in the Washington Metro area to be 3.1% in 2002 and 3.7% in 2003.

National Economic Indicators

Gross Domestic Product

This variable measures the annualized percent change in Gross Domestic Product. GDP is the broadest measure of economic activity and reflects the growth rate of total economic output in the U.S. including goods and services. Source: BEA

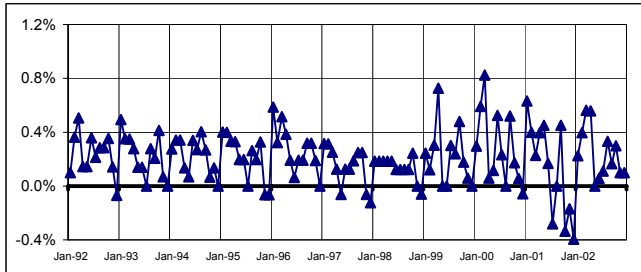


Recent Trend: **INCREASING**

After three quarters of contraction during 2001, GDP has increased for five consecutive quarters, albeit modestly. *The Economist*, the IMF and OECD forecasts for U.S. GDP growth for 2002 and 2003 are between 2.2% and 2.6%. Major contributors to the slowdown in Q4 were a deceleration in consumer spending and downturns in inventories and exports.

Consumer Price Index

This variable measures the month over month percent change in the Consumer Price Index (CPI) for the U.S. The CPI measures the price level of a fixed market basket of goods and services and is the most widely cited inflation indicator. Source: BLS

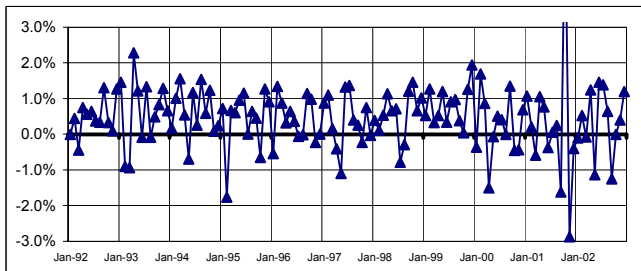


Recent Trend: **UNCLEAR**

Inflation has been tame. After a 0.3% increase in October the U.S. rate of inflation declined to 0.1% in November and December. Inflation is expected to remain low. A forecast by the *Economist* anticipates an inflation rate of 1.6% in 2002 and 2.1% in 2003. The OECD anticipates rates of inflation to be below 1.4% for both 2002 and 2003.

Retail Sales

This variable measures the month over month percent change in seasonally adjusted retail sales in the U.S. Retail sales are widely followed as the most timely indicator of broad consumer spending patterns and can be quite volatile. Source: Census Bureau.

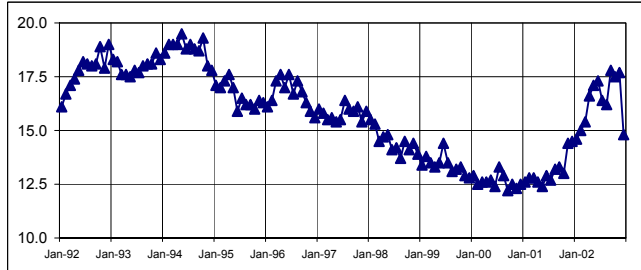


Recent Trend: **UNCLEAR**

Retail sales in the U.S. increased by 1.2% in December after a 0.4% increase in November. Retailers were disappointed by a poor Christmas season, some reporting that Christmas of 2002 was among the worst in 30 years. Retail sales have not declined on a month over month basis since September. Note: extremely high value of 6.5% in 2001 represents post 9/11 retail activity.

Unemployment Duration

This variable measures the length of time, in weeks, that persons classified as unemployed had been looking for work in the U.S. This variable is sometimes argued to be a better indicator of the labor market than the unemployment rate. Source: BLS

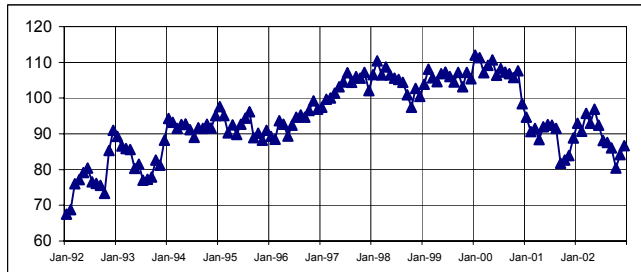


Recent Trend: **INCREASING**

Although the general trend for the unemployment duration for the average person has been increasing, in December 2002 this figure declined significantly to 14.8 weeks. Recent increases are attributed to the sluggish employment growth that has occurred in the U.S. Unemployment duration is still below levels experienced after the 1991 recession.

Consumer Sentiment

This variable measures both consumers' appraisal of current economic conditions and their expectations. The index is helpful in predicting sudden shifts in consumer patterns. Source: University of Michigan. (1985=100).

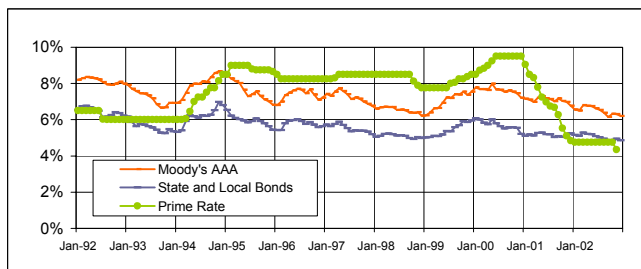


Recent Trend: **UNCLEAR**

Consumer sentiment has increased for two consecutive months, but declined seven of the last twelve months. Analysts attribute the recent gain to a confidence Americans may have that the economy is rebounding and that the stock market may have stabilized. A continued economic recovery depends in large part on consumer's willingness to spend.

Interest Rates

Rate of interest in money and capital markets. Moody's AAA - Private, all industries AAA Rating; State and Local Bonds - 20 bond index; Prime Rate - bank prime loan rate. Source: Federal Reserve



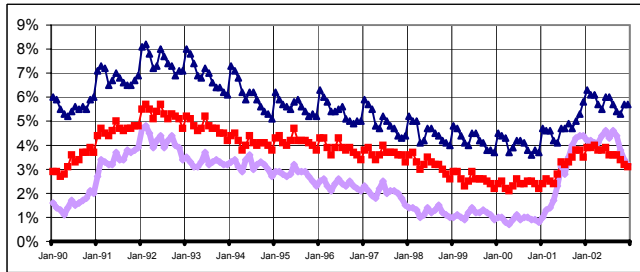
Recent Trend: **DECREASING**

Interest rates have generally trended downward for two or more years. Lower interest rates have fueled the robust housing market, but have not yet resulted in a significant increase in business investment. Interest rates on state and local bonds and AAA bonds are near 34 year lows. The prime rate is near a 44 year low.

Regional and Local Comparisons

Unemployment Rate

The unemployment rate is measured as the number of unemployed divided by the total labor force by place of residence. These data are subject to some criticism at the county level, particularly in rapidly growing localities. Source: BLS Employment Report.

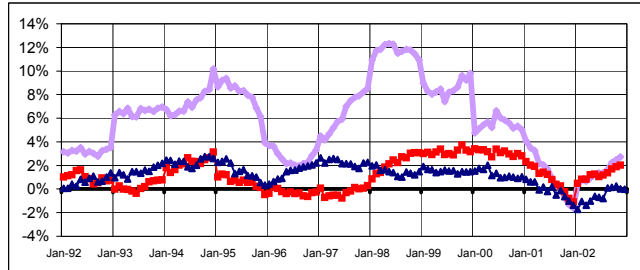


Recent Trend: **DECREASING**

The labor market has remained tighter than the U.S. in both Loudoun County and Washington Metro Area. Loudoun's unemployment rate has converged to the region's in the latest two years. Washington's unemployment rate is among the lowest of the major metro areas. The regional and local labor market appears to be tightening ahead of the U.S.

Civilian Employment

This variable measures the month over the year percent change in non-farm payroll employment on a place of work basis. This indicator is considered the most timely and broad monthly indicator of economic activity. Source: BLS employment Report.

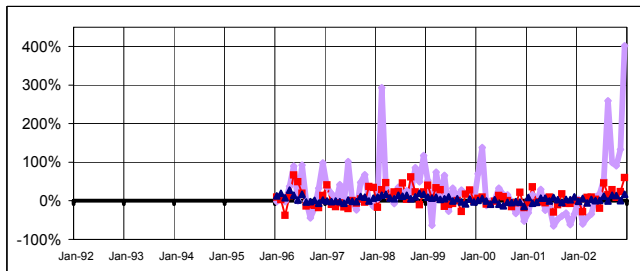


Recent Trend: **INCREASING**

In the 1990s, employment growth in Loudoun County outpaced the region and the U.S. Each experienced a period of contraction in late 2001 and early 2002, however it appears that both the region and Loudoun are recovering from that downturn more quickly than the U.S., suggesting that this area may precede the nation in economic recovery.

Residential Bldg. Permits

This variable measures the month over month percent change in residential building permits. An increase in building permits usually follows a reduction in mortgage rates. These data can be volatile especially at county levels. Source: Census Bureau.

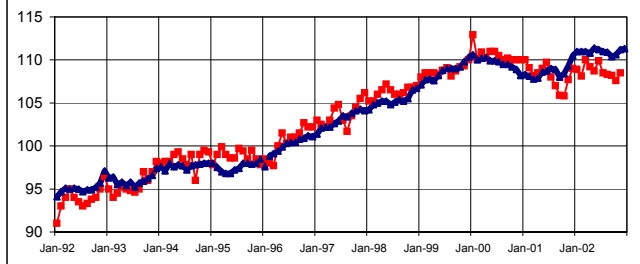


Recent Trend: **INCREASING**

Loudoun's percent change in residential building permits underperformed both the U.S. and the Washington Metro Area for the entire period of May 2001 to April 2002 with the exception of January 2002. Since July 2002, the rate of change in Loudoun's residential building permits has far outpaced Washington and the U.S.

Leading Indicators

The Conference Board produces the U.S. Leading Indicator and GMU's Center for Regional Analysis produces the Washington Leading Index. They differ in composition. Both forecast economic performance in the short term (about 6 to 12 months).

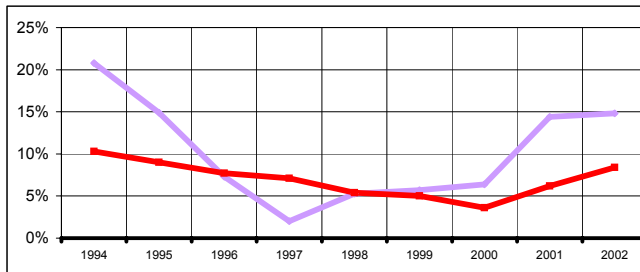


Recent Trend: **UNCLEAR**

The U.S. Leading Indicators index increased modestly in December after a large gain in November. That index has increased for three consecutive months and is 3.2% above its most recent trough in March 2001. The Washington Leading Index increased in November after four months of decline, but is still below its recent peak of 109.9 set in June 2002.

Office Vacancy Rates

This variable measures the share of office space that is vacant, excluding sublet space. It is a good indicator as to the health of the non-residential real estate market. Comparable U.S. figures are not available. Data area only available annually.

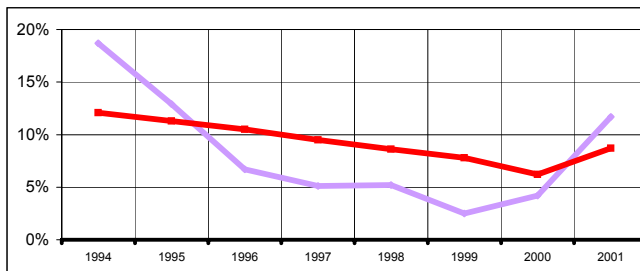


Recent Trend: **INCREASING**

In the Washington Metro Area, office vacancy rates increased from a low of 3.6% in 2000 to over 8% in 2002. In 1997, these rates in Loudoun County were 2% and have since increased to almost 15%. Regional economists expect them to return to equilibrium, single digit rates within 2-3 years.

Industrial Vacancy Rates

This variable measures the share of industrial space that is vacant, excluding sublet space. It is a good indicator as to the health of the non-residential real estate market. Comparable U.S. figures are not available. Data area only available annually.



Recent Trend: **INCREASING**

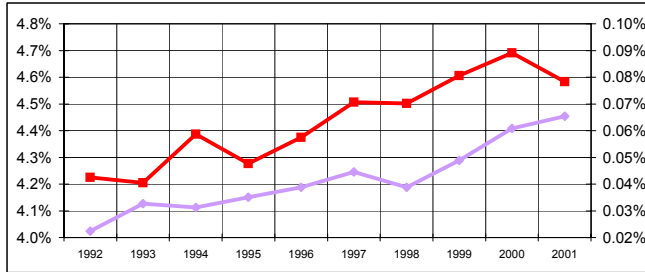
After six consecutive years of decline, industrial vacancy rates in the Washington Metro Area increased from a low of 6% in 2000 to 9% in 2001. These rates have also been moving upward in Loudoun County. In 1999, the industrial vacancy rate was 3% but has since increased to 12% in 2001.

— Loudoun County — Washington PMSA — U.S.

Government Finance

Total Federal Spending

This variable measures the Washington Metro Area's (left axis) and Loudoun County's (right axis) share of federal expenditures or obligations including retirement & disability pmts procurement contracts, and salaries & wages. Source: Census Bureau.

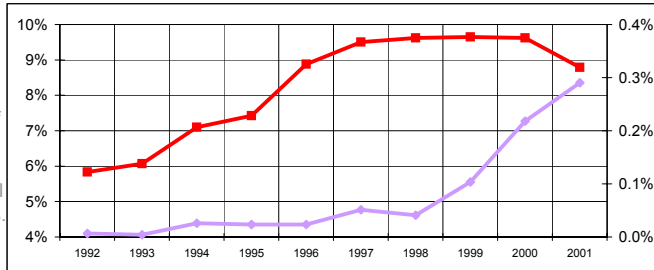


Recent Trend: **INCREASING**

Both the region and Loudoun County have received an increasing share of total federal spending. Since 1992, federal spending in the Washington Metro Area has increased marginally from 4.2% to 4.6%. During the same period, Loudoun's share increased from 0.02% to 0.07%.

Defense Procurement

This variable measures the Washington Metro Area's (left axis) and Loudoun County's (right axis) share of total defense procurement expenditures. Defense procurement is the sum of all procurement for all branches. Source: Census Bureau.



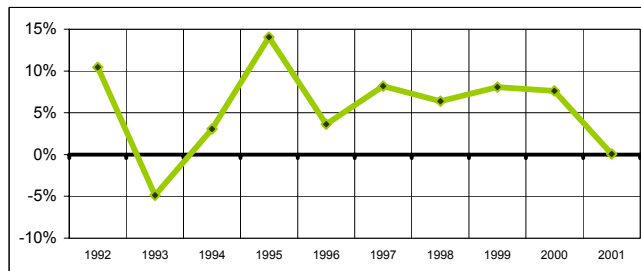
Recent Trend: **INCREASING**

In 2001, the Washington Metro Area's share of total defense spending declined from 9.6% to 8.8%. Loudoun's share of defense spending has risen significantly since 1998 increasing from 0.04% in 1998 to 0.3% in 2001. Increased defense spending in the region and Loudoun County is anticipated as homeland defense spending increases.

— Loudoun County — Washington PMSA

General Fund

This variable measures the year over year percent change in the net revenue collections in the Commonwealth's General Fund. The years are measured in fiscal years. Data are adjusted for Inflation. Source: VA Department of Taxation.

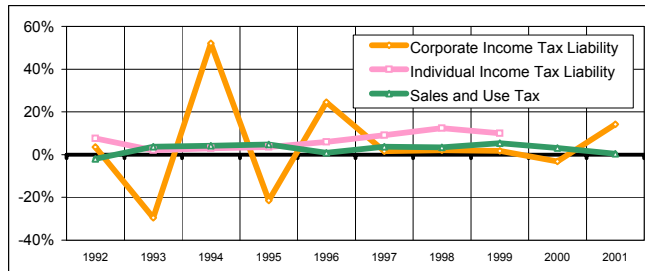


Recent Trend: **DECREASING**

After seven consecutive years of growth, the inflation adjusted change in General Fund revenues was flat in 2001. Declines in general fund revenues likely lead to diminished state expenditures and increased fiscal pressure for all counties and independent cities in Virginia. Throughout the U.S., states are facing their worst fiscal crisis in a decade.

State Revenue Components

This graph displays the year over year percent change in selected state revenue components including individual and corporate income tax and sales tax. Sales tax data excludes the transportation component. Source: VA Department of Taxation.



Recent Trend: **UNCLEAR**

Among the larger components contributing to Virginia's General fund, only Corporate income tax experienced an inflation adjusted increase in 2001. Unfortunately, corporate income tax revenue is among the smallest sources of revenue displayed here.

Summary

	Trend		Number of Indicators
Gross Domestic Product	INCREASING		
Consumer Price Index	UNCLEAR		
Retail Sales	UNCLEAR		
Unemployment Duration	INCREASING		
Consumer Sentiment	UNCLEAR		
Interest Rates	DECREASING	Favorable	6
Unemployment Rate	DECREASING	Unclear	5
Civilian Employment	INCREASING	Unfavorable	4
Residential Bldg. Permits	INCREASING		
Leading Indicators	UNCLEAR		
Office Vacancy Rates	INCREASING		
Industrial Vacancy Rates	INCREASING		
Total Federal Spending	INCREASING		
Defense Procurement	INCREASING		
General Fund	DECREASING		
State Revenue Components	UNCLEAR		

Distribution of Indicators

